Accelerate Your Real Estate Investment Profits

Discover How to Generate Fast Cash and Become Wealthy Investing in Real Estate

By Wissem Sghaier

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This book is for anyone who have ambition to overcome obstacles and capable of achieving his set of goals.

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Introduction

Traveling from Europe to the USA wasn't an easy trip, especially while having no family and no friend's support. However, you can win friends anywhere in the world and establish relationships that are built to last. While working odd jobs in restaurants and grocery stores, I knew there was an escape of that unpleasant routine. Luckily, I met a friend who later on became my Mentor. He is a real estate investor and entrepreneur. Following his footsteps, I learned how to be a successful real estate investor. I knew the ins and outs of complex situations. I had a degree in computer engineering from Georgia Institute of Technology. Like many Americans who dreamed to get a 9 to 5 job with a Fortune 500 company, I got one too. But, sure enough I felt that I had no freedom, and I knew that this situation must be changed for good. And I had a goal in mind: to be financially free.

I started reading books about real estate investment, attended seminars and webinars, watched videos, connected with local investors, met with real estate agents, attorneys, closing agents and title companies, inspectors, cash buyers and hard money lenders. I discovered new ideas about creative techniques for making money that require no cash or credit, which was perfect for me at that time because I had no money or credit.

In 2000, my mentor guided me to close my first deal. Then he mentored me to make more money from all sorts of deals including wholesales, foreclosures, short sales, rehabs, lease purchases and creative financing deals. He coached me to do it all. Then I thought…It's time to share it with the whole world.

1. Wholesaling Real Estate

Wholesaling is the single most popular strategy among those who are just getting started investing in real estate. The reason is that it requires little to no resources, responsibilities or commitments and it can generate quick cash. Also known as “flipping”, the concept of wholesaling is that you are getting a seller to agree to a low price or favorable terms and then you are wholesaling, or flipping, the deal to a new buyer for a higher price or fee.

The traditional wholesale transaction looks something like this: a homeowner agrees to sell their home for $100,000 even though the retail value may be $175,000. Then, as soon as the wholesaler has the deal locked up with a contract, the wholesaler then finds an investor willing to pay more than $100,000, say $110,000 or $115,000. Then, at the closing, the wholesaler makes the spread of $10,000 to $15,000.

The general rule of thumb that has been established with this model is that wholesalers need to find real estate deals at 65% of true market value (or less is even better) and then flip to investors who will purchase that same property for around 70% of value. That presupposes two very important events; one, that there are real estate owners out there willing to sell their property for 65% of value (or less) and two, that there are investor buyers out there willing to pay

70% of value for real estate. In the real world, real estate owners willing to sell their properties for 65% or less of value encompass a very, very small percentage of the total number of sellers. And the numbers get increasingly smaller as you move into areas with higher prices, areas with nicer properties and areas with newer built real estate. On the other hand though, the number of potential wholesale deals increases dramatically as you move into lower priced, older and rougher areas of town.

Why? First, newer built homes, for the most part, lack enough equity to allow for a wholesaler to pick up a deal at 65 cents on the dollar because most have mortgages against the property that are nearly equal to the value.

Second, as property prices increase, the ability to maintain the same percentages becomes increasingly difficult. For example, 65% of $100,000 is $65,000 while 65% of $1,000,000 is $650,000. It becomes more and more difficult to maintain such favorable percentages as the price increases.

Third, nicer areas of town are usually in greater demand and therefore finding buyers is not nearly as difficult, regardless of the property's condition. Most sellers of properties in nice areas can simply list the property with a local real estate agent on the Multiple Listing Service (MLS) and if priced right, will sell very quickly.

Fourth, nicer properties tend to be easier to sell and most owners of great condition properties are not as willing to give up their property for such a low price.

Fifth, as a gross generalization, higher priced and nicer area property owners tend to have access to more information and resources and typically have the wherewithal to get a property marketed correctly so that they can sell for more than 65% of value. Unlike at any other time in history, real estate owners can now go onto the internet and with a few key strokes, they can find out approximately what their property is worth, making it that much harder for wholesalers to find deals at 65 or less cents on the dollar. Therefore, wholesale deals tend to be found in the older and/or lower priced and/or rougher parts of town and the more in disrepair the property is, the more likely the owner may be willing to give up their property on the cheap.

An ethical issue exists with wholesaling that is rarely talked about or mentioned. Sometimes, the only reason why wholesalers are able to get a property under contract for 65% of true value or less is because the owner doesn't know any better or has an inaccurate understanding of what the value of their property really is. Are you really helping a seller if you are getting them to agree to 65% or less of value when you know in your heart that they are unaware of what they actually have on their hands? This is an ethical question that you may have to confront in your investing endeavors. The reality is that for most real estate owners can simply call up a real estate agent and if that agent spends the time it takes to get the property marketed on the MLS properly, most sellers can get at least 80% of value. And in some cases, 90%+ on the open market.

Some investors take the stance that, "if the seller is happy with what I've offered, then a deal is a deal." Other investors think, "If I know that this seller could simply put this property on the MLS and make $25,000 more than selling it to me for 65 cents on the dollar, then I need to at least share this information with the seller so that they can make a more informed decision."

In addition to the ethical issues, there are practical is-sues that can be argued on both sides as well. The drawback of not educating the seller of all of their options, such as putting the property on the MLS with an agent, is that after the contract is signed, they may begin asking friends and family about their decision. Soon the owner may realize, even before you've closed, that they are selling their property for far less than they should. Their next move will be to try to get out of their contract with you by any means necessary (legal or otherwise). When a person thinks they are being taken advantage of, as you learned from the pain and pleasure lesson, they will go to great lengths to get things straightened out.

However, by educating a seller on how they can possibly get much more for their deal than you are offering, you may lose the deal altogether. Proponents of educating property owners of their options would also argue that some sellers will actually appreciate the information and then still end up agreeing to work with you to avoid any future hassles with real estate agents or other people viewing the property. In such cases, you can feel good that you did provide the seller with many options and if they chose to sell to you, even though you were offering less, it's more likely they won't back out before it closes and all parties will be happy. For my students, we strongly recommend they provide property owners with all of their options and then allow the sellers to make the choice that is best for them.

TIP: Always do the right thing in business and operate in such a manner that if your actions were ever recorded on the front page of the newspaper, you would feel good about the story written about you.

You can wholesale all types of real estate, from houses to commercial shopping centers. However, certain properties create terrific little niches for the traditional wholesale strategy. One great niche involves wholesaling vacant lots. There are always local builders looking to pickup vacant lots to build on. Since the property is very simple with very few variables (zoning and if it has power, water and sewer going to it), vacant lots can be among the fastest and simplest traditional wholesales you can do. Plus, the person you are trying to sell to won't easily get connected to the owner because most people don't live on a vacant lot. (A real problem for wholesalers is when the new buyer gets in direct contact with the original seller thereby removing the middleman, the wholesaler).

Another great wholesale niche involves older vacant homes in areas where there are many tear downs and new luxury homes being built. Luxury home builders may be buying properties for $200,000 and then bulldozing the existing structure and building $2,000,000 luxury castles on the lot. Once again, a vacant property makes wholesaling so much easier.

A third terrific wholesale niche involves older homes in an area that is being revitalized. You can spot these areas easily by looking for a disproportionately large number of dumpsters in the drive ways of vacant homes in the neighborhood. That will indicate that rehabbers have moved into that area and are vigorously buying up older homes and renovating them into more modern residences that bring a much higher price than the neighborhood used to bring. With this niche, it really pays to know where the *next big area* is going to be so that you can get there before *every-body knows about it*. As you can see, certain niches are ideal for traditional wholesaling.

> **Real World Example:** One of my students received a call from a property owner who needed some quick cash. He had a small vacant lot situated in a nice neighborhood that he had owned for some time. The reason for the vacancy was that he had moved his mobile home to his farm in the country years prior. This vacant lot owner was in a hurry and without any negotiation, said he only wanted $6,000 for the property. Our student promptly drove to meet the owner immediately and within the hour had a contract to buy the lot for $ 6,000. Our student then put the property on the MLS (check your local MLS policies and procedures because not all allow investors to list properties that they do not own) and had a buyer the next day for $18,000. Start to finish, the entire deal closed in 20 days and the profit was nearly $10,000. That's what a traditional wholesale looks like when everything goes smoothly.

In the end, traditional wholesaling is all about getting to a deal before anyone else knows about it, getting it under contract and then getting a buyer as fast as possible to buy it. When all the pieces of this puzzle come together, these can be very profitable deals and the money can flow in very quickly.

2. Foreclosure Strategies

Foreclosures are synonymous with real estate investing. Also known as an REO (which stands for Real Estate Owned), a foreclosure is a property that a bank owns and is therefore selling. Banks lend money and when their borrowers do not pay them, they legally acquire any assets that were used to collateralize their loans. In many cases, that includes real estate. The actual legal process of foreclosure is different depending on the state, but the concept in each state is the same; when borrower doesn't pay the mortgage, the bank takes the property back from the borrower.

Once the bank is the owner of the property, they usually want to sell it as quickly as possible. The first place they try to sell it is at the county courthouse, also known as a "fore-closure auction." When a bank forecloses on a property, the first thing that happens is the property is sold at auction at the local county courthouse. These auctions happen at regular intervals and in some counties, every business day.

Foreclosure Auctions

In over 90% of the cases, at the auction, no one buys the property and therefore, the bank who was owed the money becomes the highest bidder and ends up with the property. The other 10% that are purchased typically occur from experienced investors. Buying real estate at foreclosure auctions typically requires immediate cash to fund the purchase. In fact, in many counties, the money must be in the hands of the attorney handling the foreclosure in as short as 1 hour. That means that the money must be ready and available prior to the auction. This makes it very difficult to finance through most funding channels and only those investors with cash in the bank usually can buy these deals. Plus, due to the very tight time constraints, some foreclosure auction buyers must work in teams whereby one person is at the bank ready to create the cashier's check while the other is at the actual auction bidding on the property, in order to actually buy the property. Thankfully for foreclosure auction buyers, a new trend is immerging whereby foreclosure auctions are now being held online. If the county closest to you has not moved their foreclosure auction process completely online, hopefully it will sometime soon.

Unless an investor has an inside track on a deal, most foreclosure auctions involve the purchasing of "sight unseen" real estate. In which case, the investor has not been able to conduct an inspection and is therefore unaware of all the issues that may be plaguing the property. The ability to conduct a thorough inspection is really important when buying any type of property. Further, there are so many other ways to buy real estate that putting yourself in a situation where you are being forced to buy something sight unseen may not be the best way to go about investing.

Another important detail not to overlook when buying real estate at foreclosure auctions is that some liens can actually reside against the property after the foreclosure (even though it is commonly thought that a foreclosure wipes out all liens). Therefore, an investor may not be able to obtain clear title to the property for a period of time after the sale. IRS tax liens oftentimes survive foreclosure for a period of six months. In some states, owners are given a right of redemption period by law and it allows the previous owner up to 6 months (even a year in some cases) to buy back the property.

If you are going to be buying properties at the foreclosure auction in redemption states, you will need to find out exactly how the right of redemption process works. If there is anyway another person can buy property after a foreclosure auction, it is imperative that you as the investor know how long until you are in the clear. It would be quite devastating to put in time and effort to improve a property only to discover that the previous homeowner is going to purchase the home back through a right of redemption.

One last item to consider when buying property at fore-closure auction is that the previous owner may still be living in the home so you may have to evict them to get full possession of the property. If you have never gone through the eviction process before, it would be wise to learn how eviction works in your county before buying real estate at a foreclosure auction.

TIP: You will find that in real estate, it is both state and county specific. Each state has its own set of laws governing real estate. A few common examples would be right of redemption states and attorney closing states. Further, each county handles certain aspects of real estate differently as well. The most common example of this is the way in which eviction is handled. Each county law within your state could be markedly different as it pertains to eviction law. As a rule of thumb, fast cash techniques are usually state specific and long term wealth building techniques are usually county specific.

As you can see, there are many challenges facing fore-closure auction investors. Still, great buying opportunities do exist and there are ways to reduce some of the risks. Most notably, if you have already conducted a detailed inspection of the property prior to the auction, reviewed the title, obtained a redemption waiver from the owner (if in a redemption state) and have the money lined up ahead of time, even a relative novice can responsibly attempt a foreclosure auction purchase. And since there are so many "barriers to entry" with this strategy, there are usually only a few people in any given county that attempt to buy at foreclosure auctions and therefore, with less competition, comes the prospects of getting more great deals.

Real World Example: For one of my students, this particular deal was not going her way, or so she thought. Since the property owner had contacted her so late in the pre foreclosure phase, there was very little time to negotiate a short sale with the lender. Be-fore she could obtain the final approval, the property went to foreclosure auction. She knew the property well, conservatively estimating that its value was $130,000 as a residential property but since it was also zoned commercial, it had the potential to be worth $200,000 or more as a professional office building. Her negotiations with the bank during the pre foreclosure short sale phase indicated to her that the lender would not take less than $100,000. She decided to attend the foreclosure auction just to see what would happen. Our student arrived completely unprepared to make a bid on the property because she made the mistake of assuming that the bank would open the bidding at the same level she had been negotiating at during the short sale period. To her surprise, the opening bid was much lower than $100,000. It started at $70,000! She watched in disgust as another investor snatched up the deal for $70,001. And this investor had based his numbers on what the property would bring as a residential property. Much to his delight, when he discovered it could be rented to a dentist, or attorney or other business, his $70,000 investment became a $200,000 commercial property that brought $2,000 per month in rent. As you can see, in certain situations, the foreclosure auction can present incredible opportunities, especially when you have followed the property through the pre foreclosure process and have inspected the property. The lesson to also gain from this example is to never assume what the lender is going to open the bid for at a foreclosure auction. You may just be pleasantly surprised.

Pre-List Foreclosures

The next phase after a bank acquires a property through a foreclosure auction is called the "Pre-List" stage (the phrase was coined because it is the time before the property is listed on the MLS). In this stage, the bank owns the property and is in the process of preparing it for market.

They usually have to perform the following actions: First, they assign the property to a real estate agent (referred to as an REO agent). Second, they usually hire an appraiser to assess the value of the property. Third, the REO agent typically gets the property cleaned out, removing the junk and debris and possibly even replacing the carpet or adding a fresh coat of paint.

In some cases, the previous owners may still be living in the home and the bank may have to evict them. Usually the bank starts with a "friendly eviction" where they pay the squatters $500 to move out of the property and keep it in good condition on the way out. If that doesn't work, they progress to hiring an attorney, filing the eviction paperwork and eventually having a sheriff physically remove them from the property.

During this "Pre-List" phase, it has been the desire of many real estate investors to negotiate with the bank and attempt to buy the property before the bank has to go through all the pre-list hassles. Although this does exist in some rare cases, the vast majority of banks are smart enough to know that getting the property listed on the MLS is the best way to get the highest priced offer for their property. Getting a property on the MLS is a very powerful marketing plan and is usually the best way to get the highest priced buyer.

Other creative investors have attempted to work with the agent who was assigned to the property and attempt to work out a side deal. The problem with this strategy is that banks once again, aren't stupid, they know this trick, and in most cases, require the REO agent to keep the property on the MLS for a minimum number of days to allow as many offers to come in as possible. Further, asking a real estate agent to work a side deal could be unethical and could put the agent's license in jeopardy. Again, always operate legally, ethically and in such a manner that you can be proud of if it was plastered on the front page of a newspaper.

There are a few hidden ways to put together a pre list foreclosure deal. The first way is with a local or small bank that isn't well versed in how to most effectively market and dispose of their foreclosure properties. With some small, local banks, their REO asset manager may wear numerous hats in the organization and may be willing to work directly with an investor if they feel it will bring less hassles than handing over the listing to an agent. If the bank is nationwide, large and well established, it will usually be quite difficult to attempt to buck their well entrenched system and try to buy the property in the pre-list stage.

The second way to find a pre list foreclosure is through top producing REO agents that are hired by large institutional investors or hedge funds to sell off their portfolios of distressed assets. Large banks that handle thousands of foreclosures each year sometimes have issues selling a small percentage of their properties. One quick solution to selling all of these misfits quickly is to bundle them up and sell them as a package deal. The buyers of these bulk REO packages tend to be distressed asset private equity funds and hedge funds. Once the owner of these bulk REO packages, they usually hire the best local REO agents to sell the properties they just bought. Since these properties are not under the same stringent foreclosure guidelines as banks, some REO agents have the flexibility to sell these types of deals pre list. Bulk REO deals do not come along very often so these deals are few and far between. But, when they do come along, you can oftentimes get a really good deal.

The third way to find a pre list deal is applicable in states that have a right of redemption period. A right of redemption is an extraordinary loophole that very few investors know anything about but can be incredibly powerful. A right of redemption gives a homeowner the right to buy back the property after the foreclosure auction. This right of redemption can also be transferred or sold to a third party such as an investor. As opposed to buying properties at the foreclosure auction, if investing in a right of redemption state, you can actually focus on connecting with the home-owners, purchasing their right of redemption and then purchasing the property prior to the redemption period expiration. As it stands right now, the following list shows the states that have a right of redemption period for home-owners as well as the length of time it lasts:

- Alabama: 1 year
- Iowa: 60 days to 6 months
- Kansas: 1 year
- Kentucky: 1 year
- Maine: 90 days
- Michigan: 6 months (1 year for properties more than 5 acres)
- Minnesota: 6 months
- New Jersey: 10 days
- New Mexico: 9 months
- North Dakota: 60 days (1 yr for agricultural)
- Oregon: 6 months

- South Dakota: 1 year (60 days for vacant properties)
- Vermont: 6 months (1 year for properties built pre-1968)
- Wisconsin: 1 year
- Wyoming: 3 months

This list is not complete as there are numerous states that have a right of redemption provision in their foreclosure laws. However, many of these also allow lenders to place in the original loan paperwork a waiver of redemption rights. The details of this subject can actually become quite complex so the states listed above are considered to be the easiest and most straight right of redemption states. In addition, even the list above has numerous caveats so before attempting a right of redemption deal in your state, consult a foreclosure attorney well versed in this subject.

A right of redemption deal has numerous benefits. First, very few other investors know these provisions exist and therefore you typically have very little competition. Second, the property is not listed on the MLS during this time so you can re-sell the property on the most powerful marketing tool in real estate (the MLS). Third, since you already know what the property went to foreclosure auction for, you know the bank's bottom line and therefore the negotiation is usually much easier. Fourth, after the foreclosure auction, attention to the property from other investors usually subsides so there is typically no one else reaching out to these deals. Fifth, the bank is unable to sell or market the property during the redemption period so in many cases, it sits vacant, a silent opportunity just waiting for you to pick up.

The main drawback is that only a select few states have laws enacted making it advantageous for investors to focus their attention on right of redemption deals. Further, obtaining a property through right of redemption is a little different than usual and since each state is different, you will need to connect with an attorney who knows exactly how the right of redemption purchasing process works.

Real World Example: Rather than contact sellers in pre foreclosure, one student in a right of redemption state chose to target the owners whose properties had just been foreclosed upon at the foreclosure auction. He would obtain the list from the local county recorder and scour the list for those properties that had a foreclosure auction price of far lower than the fair market value. About 5% of the list would have promising prospects. He would then reach out to this select few through phone, mail and even a personal visit to the property to ask the neighbors how to reach the owner. One particular owner he contacted was more than willing to sell his right of redemption to our student in exchange for buying the property prior to the redemption expiration because it would reverse the foreclosure on his credit report. The bank agreed to the same amount as their opening auction bid and as soon as our student obtained the approval, he immediately put it on the MLS. Within a few weeks, he had a full price offer. It closed about 30 days later and our student pocketed more than $33,000. He used no cash and no credit. He simply retail wholesaled a right of redemption deal. This student does these deals over and over because they are so straight forward and lucrative.

Bank Owned REO Auctions

There exists another small segment of the foreclosure population that is not listed on the MLS and this includes REO auctions. Sometimes local banks want to get rid of their foreclosures so quickly that they skip the step of assigning it to a REO agent and immediately hire a local auction company to auction it off. These are usually absolute auctions, meaning the highest bidder gets the deal, regardless of how high that bid is. Therefore, if only one person shows up to the auction, it could be the greatest deal ever. That normally doesn't happen though because the auctioneer's job is to ensure as many buyers show up to the auction as possible.

One bonus that this type of auction has over the foreclosure auction is that the auction company can usually arrange financing for the buyer provided they can put 10% to 20% down or the buyer can use their own financing source and the buyer usually has up to 30 days to close. These types of auctions are much easier to purchase from a financing standpoint, they usually offer clear title (although never assume this) and they usually allow prospective buyers to inspect the property prior to the bidding. For these reasons, the typical REO auction is a whole lot easier to buy a property at than the foreclosure auction. But this also means you may have more competition.

There are also a few types of rare government foreclosures that are auctioned off, including those properties that have been seized by the IRS or through a criminal being arrested and all of their possessions being seized by the government. In these cases, the government usually hires an auction company to sell the property to the highest bidder. The easiest way to learn about these deals is to visit the various websites that post this information.

Listed Foreclosures

Thus far, we have covered the instances where a fore-closure or REO is sold through a means other than the MLS.

That class encompasses the small minority of foreclosures. The vast majority end up listed on the MLS with an REO agent. Why? As stated earlier, listing a property on the MLS is a very powerful marketing strategy and usually nets the highest sales price for a property. The problem with a listed foreclosure is that once it hits the MLS, everyone else knows about the deal and this creates competition. Rockefeller was quoted as having said, "Competition is a sin."

As the number of competitors increase, you're chances of getting a great deal decrease. Plus, when a property goes on the MLS, you are now in direct competition with retail buyers, those buyers that want to live in the property and they are almost always willing to pay far more than an investor for a property.

You may be asking, "How can I find good deals among listed foreclosures?" There are a few inconsistencies in this otherwise completely efficient marketing style that you can focus on. First, if the property is in complete disrepair, it may intimidate a retail buyer and therefore you are left with only other investor buyers for the property. Next, if a foreclosure listing sits on the market for a long time at a price too high for any investor to buy it, it can go unnoticed over time. After an extended number of days on the market, usually 120 days, most banks open their minds to lower offers so you can slip in with an offer far lower than the list price. As long as it has been on the market for a very long time, you may have a chance at getting a surprisingly good deal.

A fabulous inconsistency in the listed foreclosure world occurs when banks must liquidate large chunks of foreclosures for financial purposes. Oftentimes, they will package up blocks of foreclosures that have been sitting on the market for several months and sell them in a bulk package. Right before the property gets wrapped up in a bulk package, the asset manager and the REO agent will both quickly scramble for a buyer, even if they must discount the property dramatically, because if the property gets put into a bulk package, neither the REO agent or the asset manager benefit. They become desperate and that creates a great opportunity for you!

How do you take advantage of these inconsistencies? Network with the top producing REO agents in your area.

These types of real estate agents may close anywhere from 50 to 500 or more transactions per year. They run a very productive real estate operation and therefore do not have a whole lot of extra time on their hands. In order to get noticed by these super star REO agents, you must be able to close quickly with cash. This ability to move fast on a great deal requires several skills that you may need to develop over-time. When you start trying to do deals with top producing REO agents, you are truly, “playing with the big boys,” and need to have your ducks in a row.

Some beginner investors have complained, “There aren’t any foreclosure deals out there because my real estate agent says that as soon as any foreclosure hits the market, there are instantly multiple offers from cash buyers." This scenario may be true in certain areas during certain market cycles. That's why banks prefer to market their foreclosures on the MLS, it works! However, in any market, there are usually at least a few deals that get overlooked, usually under the circumstances described above. As a successful person, you shouldn't be worried about all the reasons why some-thing won't work. Instead, you should be focused on all the ways something will work.

TIP: Many listed foreclosures have a requirement that can be quite frustrating to investors. The listing agent will require that anyone looking to make an offer on the property pre-qualify with the bank who owns the property. Not that you have to use that financing source, but that you must qualify through them in order to be able to even submit an offer. This alone kicks out many investors from being able to make an offer. As you can see, banks want re-tail buyers purchasing their foreclosures (as do we when we are selling our own deals).

HUD Foreclosures

When a loan is backed by FHA (Federal Housing Ad-ministration) and the borrower stops paying the note, the property is foreclosed upon and ends up in the hands of HUD (Housing and Urban Development). Also referred to as "HUD Homes", investors are usually prevented from purchasing these foreclosures in the first 30 or so days it is listed. The government uses these homes to help certain groups of people achieve homeownership. For example, in many areas, policemen, firemen and school teachers are given down payment assistance or other incentives to purchase HUD homes. They can be a great deal for someone in the public service sector.

> **TIP:** If you're a policeman, fireman or school teacher, do some research to find out if your area provides incentives if you buy a HUD home. It could be the best deal going out there for you. You may be able to pick up a great home for as little as 50% of value.

> Also, during states of emergency, HUD homes can be used to house emergency evacuees. After Katrina, all HUD homes in the Southeast were pulled off the market and given to Louisiana evacuees for temporary housing.

This begs the question, "When are HUD homes a potentially good investment?" After the initial period whereby only owner occupied buyers can make an offer, this is where investors can begin to make offers. Although some opportunities may exist among HUD homes that have just been released from the owner occupied period, in most cases, the best HUD home deals begin after the property has been on the market for a minimum of 120 days. Some investors simply submit low ball offers to every listed HUD home on the 121^{st} day it is on the market. Very few HUD homes ever make it that far, but when they do, HUD is far easier to negotiate with and some opportunities do exist.

> **TIP:** When it comes to investing in foreclosures, you're almost always dealing strictly with price. Although more common in the past, these days, most banks rarely offer buyers of foreclosures good terms unless the buyer has great credit,

tons of easily verifiable income and a very large down payment (or the buyer is going to live in the home as in the case of HUD foreclosures or VA foreclosures). In most cases, as an investor, you're dealing with really only one variable; price. This is also known as a straight line negotiation because the lower the price you negotiate, the better the deal. Also, you are rarely given more than about 30 days to close so wholesaling a foreclosure requires that you already have buyers on speed dial and can find and get a new buyer ready to close in less than 30 days.

Real World Example: A very successful investor who owns nearly 150 single family homes has built his mini-empire from the following formula: As a licensed real estate agent, he set up an auto-reminder that alerted him every time a HUD foreclosure listing went

120 days on the market. Every so often, he would get an alert and he would immediately submit a low ball offer on the property. Over time, a certain percentage of these offers he submitted got accepted. He used lo-cal banks to finance the purchases of these properties since he had both cash and credit. After improving each property, instead of immediately re-selling them, he would sell them on a rent to own. Since less than 20% of tenant buyers exercise their option to purchase, over a long period of time, his portfolio grew to nearly 150 houses and each one has tremendous equity and cash flow. His formula has three major advantages. First, he was buying these properties at a very low price so he has tons of equity. If the tenant doesn't pay him and he is forced to evict, if he is tight on cash, he can always sell the property quickly be-cause he has so much room in the

deal. Second, since he buys them so cheap and he uses a local bank loan, he has low monthly payments so he can cash flow strong. Third, since he sells them after owning the property for more than a year, he gets the tax benefit of paying long term capital gains tax as opposed to ordinary income tax on the profit.

VA Foreclosures

When a VA loan goes unpaid and is foreclosed upon, the Veteran Affairs Administration will list the property with an REO agent just like almost every other foreclosure. However, they also offer favorable financing terms so that the property is within reach of almost anyone. For investors, the requirements can be as low as 5% down and there is no limit to the number of "VA Vendee Loans" that an investor can have. Plus (and this may be the best part of all), the investor can use up to 75% of the anticipated rents as income on the loan application. Very few, if any, conventional loan pro-grams allow borrowers to claim income on a rental property that is not yet rented. In most cases, you must already have the tenant moved into the property with a signed lease in order to use the rental income as part of your income on a loan application. The terms of a VA vendee loan are very good, making this a little known niche within the foreclosure realm potentially extremely profitable.

There are a few minor drawbacks though. First, the property is listed so there will be some competition. Second, there aren't very many of these deals out there. The VA posts every active VA foreclosure on their website. When you search for VA foreclosures in your entire state, you may be surprised by how few there are. Third, because the terms are so amazing, the price you pay may be a bit higher than with an all cash auction type deal.

The investors who stand to profit the most from this niche are those that live near a military base where VA loans are used most frequently. These areas will create the most VA foreclosures and also, will provide a steady stream of potential tenants in the event the investor wants to buy and hold the VA foreclosures they purchase.

3. Creative Financing

Up to this point, you have learned about many of the traditional ways to buy real estate; wholesaling, pre foreclosures, short sales and the vast subject of foreclosures. Now, you're going to learn about purchasing or controlling real estate using creative financing. These strategies are far less known but can be extremely powerful. Since so few people are aware of these different ways of buying or controlling real estate, you will have less competition when you apply them. Plus, they have many hidden benefits that most of the traditional investing strategies do not. But, this section also requires that you step outside the normal real estate box. These are creative approaches.

Subject To

The phrase "subject to" is actually a shortened version of the phrase, "subject to the existing financing." Believe it or not, you can be the owner of a property without your name ever appearing on the loan. If you were to buy a property whereby the existing loans did not get paid off, you would be buying the property "subject to the existing financing."

This scenario happens more often than you might think. For example, if a couple gets married and prior to the marriage, one spouse owned a home and the other one didn't, in many states, as soon as the two are married, both become equal owners of the home. Therefore, one spouse becomes part owner even though he or she is not on the loan. This person therefore owns the property, "subject to the existing financing." The reason why this is possible is because the owner of the property is signified by a deed while a mortgage is secured against a property with a completely separate recorded instrument. Therefore, you can have a homeowner execute a deed giving you ownership of their property while leaving the current loan in place and making no changes to the loan documentation.

For many investors, a “subject to” deal is a dream come true. First, it allows you to become the owner of real estate without cash or credit. Second, oftentimes an owner occupied loan (which is what most sellers have in place on their property) have far better loan terms than the non-owner occupied loans that investors get. Third, many single family homes can only cash flow positive if a very low fixed interest rate loan is in place on the property so the “subject to” approach provides a way to open up a whole new class of properties to long term investors. Fourth, it allows investors to purchase unlimited numbers of properties, something that conventional lenders cap investors on. And fifth, many investors like the idea that they can own real estate without their name on the loan. That way, if things go south financially for them, their credit is not affected.

TIP: As a responsible, moral and ethical investor, you should always treat a subject to deal as if your name was on the loan. If you buy a property subject to the existing financing, the seller in good faith is counting on you to fulfill your obligation to make the monthly payments on time. Therefore, choose your subject to purchase wisely so that you always can fulfill your promises.

The “subject to” technique works for both fast cash and long term wealth building pursuits. As opposed to purchasing the traditional way and then improving it, some investors simply buy the property subject to the existing financing and then come out of pocket the money to improve it and then they sell it to a retail buyer. Other investors use the subject to as a way to build a large portfolio of rental properties. You can purchase virtually unlimited properties in this fashion.

The key to the subject to is whether or not the seller is motivated enough to allow you to become the owner while keeping the loan in their name. To the inexperienced, it may at first appear insane to think anyone would agree to sell their property and keep their name on the loan. But, when you get out there and start talking to motivated seller, you will find that some sellers will beg you to take their property off their hands.

In fact, in certain circumstances, a "subject to" can actually be a borrower's best option. This occurs when a borrower falls behind on mortgage payments. If that borrower does not catch up the late payments but instead either lets the property go to foreclosure or sells the property and pays off the loan while in default, it can really damage their credit rating. However, if the payments are caught up and then are kept up to date for a period of time, (which is what happens when an investor buys a property subject to, they will catch up any outstanding payments and then pay mortgage payments moving forward on time), the borrower's credit rating can be vastly improved. For sellers that do not have access to the money to catch up the payments, having an investor bring the loan current can be the very best outcome for that seller.

Subject to investing has always been somewhat controversial. The main controversy centers around a certain clause most mortgage companies put in their loan documentation called a "due on sale" clause. This clause usually goes some-thing along the lines of, "if the property changes ownership, the lender reserves the right to call the loan due." When a lender calls a loan due, they expect their entire loan balance within a very short period of time or else they will begin the foreclosure process. In the annals of real estate investing history, there have been very few (less than 0.001%) incidences of a lender calling a loan due from a transfer of title of a subject to transaction. The factors that have led to these occurrences have usually been that the loan was not current, had fallen into default and the lender saw an opportunity to initiate foreclosure faster than the normal way by using the violation of the due on sale clause.

The reason why so few lenders enforce the "due on sale" clause is because banks are in the business of lending and collecting money and in most cases, they want to continue to own and service a performing asset (a loan that is being paid on time) as opposed to acquiring it through foreclosure. As a subject to investor, continuing to make on time payments is critical to ensuring you bring no unneeded attention to your deal. If the payments are made on time, most lenders (99.999%) will never bother with enforcing the due on sale clause.

Finally, even if a lender was to call the loan due, so long as you had purchased the property right, you could sell it or refinance it well within the time the lender specified to be fully paid. If you are making payments on time to the mort-gage company, your odds of experiencing a lender accelerate a loan due to a title change is far less than being struck by lightning. In other words, for most subject to investors, the thought of a lender foreclosing as a result of the "due on sale" clause never crosses their mind.

TIP: Some investors have circumvented the due on sale clause by deeding the property into a trust that the homeowner has a partial beneficial interest in. This satisfies the stipulations in most due on sale clauses because the borrower maintains an ownership position in the property. The problem with this arrangement is that the original owner is still involved in the transaction and history will prove that when you keep the owner involved, trouble usually ensues. You are welcome to try out this method but records show that as clever as this may at first appear, in practice, it's far better to make it a clean transaction by not leaving the previous seller as a part owner. Since the odds of a loan being called due is so small, taking on this additional liability and risk with keeping the original owner involved simply doesn't make sense for most investors.

Lease Purchase

The lease purchase is a technique that shares many of the same characteristics as the "subject to". With a lease purchase, the investor is leasing the property from the owner and is also securing an option to purchase the property for a specified period of time.

By entering into this arrangement, you are controlling the property as opposed to owning it, which can have numerous benefits. First, if your name is not on the property, it doesn't show up in any records that you are the owner which may provide anonymity in the event you accumulate a colossal portfolio of real estate holdings and want to remain under the radar. Second, if the deal does not pan out, so long as your lease purchase agreement is written correctly, you may be able to give the property back quickly and easily without the headaches that sometimes occur with giving back a subject to deal. Third, since you are not the owner, technically there isn't a closing which saves you money when you acquire the property. And fourth, leases can sometimes be extremely powerful and allow you to control the property without the responsibilities of ownership.

Real World Example: Most people are familiar with the iconic building in downtown New York City, the Empire State Building. What most passers-by would probably be blissfully unaware of is the fact that the Empire State Building has been controlled by a bulletproof long term lease for a very long time and will continue to be for many years to come. The building, if not locked in by this lease, could be worth $1B or more. As it stands right now, its value is a fraction of that amount. The reason is that the long term lease that is in place has a rental rate that is much, much lower than the market rental rate. Commercial real estate is often valued by the amount of income it produces. The Empire State Building produces a fraction of the amount of income it could produce had this lease not be in place.

Many ambitious real estate tycoons, including Donald Trump, have attempted to break the lease in the past but each time it has been brought into the local courts, the lease has held strong. Nearly 28 high powered attorneys long ago crafted this work of art and it has made the beneficiaries of this deal an absolute fortune.

The principals that control the lease actually re-lease the individual office space to other tenants. This is referred to as a “sandwich lease”. When an investor controls a property through a lease and then re-leases the property to a tenant, they are conducting a “sandwich lease” arrangement. This is not allowed in all states so make sure you verify with a local real estate attorney before embarking on a sandwich lease deal. For the Empire State Building lessors, the cash flow they receive by simply controlling the building through their lease is extraordinary. In fact, over time, these principals have passed on their rights to their heirs making this a dynasty.

The one item the Empire State Building lease is missing is the option to purchase the property. In fact, ownership of the Empire State Building has changed hands numerous times over the years and throughout all of these changes, the lease remains in force. As an investor working with motivated sellers, they are often very interested in the property being sold sometime in the near future so that they can fully wipe their hands clean of the property. Therefore, in most cases, you will not only be controlling the property through a lease, you will also have the option to purchase the property.

The biggest drawback to acquiring a property on a lease purchase arrangement is that the owner still has his/her name on the title and therefore, if that person has a lien or judgment slapped against him/her, that debt could end up filed against your deal. That could then wipe out any future profits when you try to sell it. There are some ways to protect yourself somewhat from this potential catastrophe, but the only surefire way to insulate yourself from such an occurrence is to buy the property through a subject to arrangement.

TIP: As a general rule, if the deal is good enough, if you are going to be re-selling the property to a rent to own tenant buyer, it is usually best to purchase the property subject to and to only drop down to the lease purchase level if the seller won't agree to a subject to arrangement.

Owner Financing

Another way to acquire real estate creatively is to have the owner of the property provide the financing for you. This can take on many forms but the basic concept is that instead of you bringing money to the transaction, you agree to pay the owner back overtime. In situations where the property is owned free and clear (without a loan), the subject to strategy is not applicable and if you want to own the property as opposed to control it with a lease purchase, you either have to bring your own money to the closing or you have to get the seller to finance the purchase for you.

There are many benefits to acquiring property with owner financing. First, most owners will not check your credit or verify your income as in the case of borrowing money from a bank. Second, the terms of the loan can some-times be far more favorable than a bank. Third, most property owners do not have the wherewithal to report payments to the credit bureaus so the loan may not appear on your credit report. And fourth, it may be the only way for you to acquire a property that is owned free and clear.

There are benefits to the seller as well. Some property owners may not have a loan against their real estate and might be in the process of retiring. In such cases, a big chunk of cash may not be nearly as important to this seller as a steady monthly stream of income. Many sellers can avoid the gigantic tax bill that may be triggered from the sale of the property by selling it on an "installment sale". An installment sale is a type of owner financing whereby the deed is not transferred to the new buyer until the entire purchase amount is paid off. It can be accomplished whereby the seller only pays tax on the income that is generated per year from the monthly payments. This can be highly advantageous to certain sellers.

Although buying a property through owner financing may provide you with very favorable loan terms, as a seller you may want to think twice before offering to sell a property to someone else whereby you are the one providing the owner financing. The reason is that by selling one of your own properties on owner financing terms, you will have to use the legal foreclosure process in order to take back pos-session of the property if the person stops paying you. Foreclosure can take months and months to complete and can be very costly.

Large lending institutions can weather the storm of a foreclosure much easier than you can because they are not lending their own money in most cases. The way our banking system works is that banks lend approximately 10 times the amount that they have in deposits. They lend 10 times more money than they have and there isn't a vault somewhere that houses that extra money either. They are lending money out of thin air! If you were lending money out of thin air, waiting six months to a year before you acquired your property back would not be as devastating but since you would be owner financing real money, foreclosure is a very expensive proposition.

TIP: To learn more about how the bank-ing system works, there are numerous books, publications and resources that describe this fascinating (and infuriating once you know the truth) subject. The book "The Creature from Jekyll Island" by Edward

Griffin is the definitive text on the topic although it is very long. You may also find terrific resources online by searching the phrase, "The Truth behind Our Banking System". Caution though, once you go down this rabbit hole, you may never see the world quite the same again. It's really sad when you find out that the money banks lend is largely created out of thin air.

When selling a property, it is almost always much better to maintain ownership and control of the property by offering to the buyer a rent to own arrangement. That way, if the person stops paying you, you wouldn't be foreclosing, but instead, you would be evicting the person as a tenant. Evictions can be very fast depending on the county in which your property is located, but usually they take less than 30 days if you hire the right eviction attorney.

There is a bit of a double standard being presented here. As a buyer of real estate, the owner financing strategy can be a terrific tool in your investor tool belt, but as a seller of real estate, it is usually much safer to avoid owner financing and to use the rent to own arrangement. Like all real estate deals, each situation is different and there may be times where selling using owner financing is advantageous. One example would be where a buyer only needs you as the seller to "carry back" or owner finance 10% of the purchase price. This happens in situations where the buyer is short the down payment but can obtain a loan for say, 90% of the purchase.

Real World Example: One of my students had renovated a property in a working class part of town and one particular buyer was willing to pay more than full price for the property but her mortgage company could only provide 90% of the total sales price. This buyer did not have the other 10% in a bank account, she couldn't get a relative to help her and she couldn't find another bank to lend her the additional amount. Our student reasoned that if the property would appraise for more than his asking price, he could reasonably raise the purchase price to a level whereby taking back a note for that 10% would not cut too deeply into his profits. As it turned out, the appraiser came back with an amount higher than his asking price so he was able to raise the price to the level of the appraisal amount. Instead of bringing that 10% money to the closing table, since our student was the owner, he owner financed that 10% by having the closing company draft a mortgage note for the amount. This buyer was very motivated to purchase the home so our student was able to charge an interest rate that would provide a small additional profit as well.

When the deal closed, the buyer's first mortgage wired 90% of the purchase to the closing company. This was just about the same amount as his original asking price. The other 10% came as an owner finance note from our student. This provided our student with a steady monthly check from the buyer and to our student, was basically an extra bonus on top of what he had already profited. His attitude was that if the borrower didn't ever pay him, he still made out just fine. The only problem with this otherwise brilliant plan was that from a tax perspective, our student had to pay income taxes on the 10% note as well even though he had not received that money in his hand in that calendar year. The way he planned to off-set this predicament was that he would have the buyer make on time payments for 6 months and then he could sell this "seasoned" and "performing" note to a note buyer. Then, if he was able to sell his note within that same calendar year, even though he would have to pay income taxes on the 10% amount, at least he would have some cash from the sale of the note to cover the taxes and also have a healthy amount left over.

All was going according to plan until the buyer filed Chapter 13 bankruptcy just 5 months after buying the home. The bankruptcy court sent a few more payments sporadically and then the payments stopped coming in altogether. In the end, the note was not sold to note buyer because it became a "non performing note". All was not lost however because our student used the 7 or so payments to off-set the tax liability. The lesson here is to never assume that someone is going to pay you on your owner financed note and therefore, only do it if it is icing on the cake and you have already obtained your profits without the note.

There is a strategy called a "wrap around mortgage" which has similar attributes to the sandwich lease and belongs in this discussion. With a wrap around, the investor buys the property using owner financing or a subject to arrangement and then re-sells the property using owner financing. It's basically the owner financing version of the sandwich lease. As you can probably guess though, in most cases, we strongly recommend avoiding this arrangement because if your new buyer stops paying, you'll have to foreclose.

Some investors have employed a solution whereby they put the deed in escrow and therefore if the homeowner stops paying even one payment on a wrap around mortgage, the deed in escrow can be recorded and the investor gets owner-ship of the property back. This is still not as wise of a move as simply offering a rent to own to the prospective buyer. When it comes to selling real estate, either get all (or as much as you can) at the closing or provide the new buyer with a rent to own arrangement so that you can maintain ownership and evict if the person stops paying you.

The “subject to”, the lease purchase and owner financing are three creative ways to buy real estate. Each state has different laws pertaining to these techniques so consult your real estate attorney before finalizing the paperwork on any of these types of deals.

4. Fund, Fix and Flip

The retail wholesale is a phrase coined by our team to describe when you flip or wholesale a property to a retail buyer. The traditional wholesale typically involves selling the property to another investor buyer. There certainly are instances where this is the most profitable option. Usually when the property is in complete disrepair with fix up tasks far exceeding simple cosmetic work or if the property is vacant land as in the case of the example above.

Our team discovered that oftentimes you could retail wholesale a deal to a retail buyer and make 10 times as much in profits for the same amount of work as traditionally wholesaling it to an investor buyer. Most people would actually be surprised to discover that some retail buyers are not picky and can be very flexible with property condition issues. In fact, some retail buyers actually enjoy painting and doing light, cosmetic fix up projects to a home they just purchased. Further, some motivated sellers own properties in perfect or near perfect condition as well. Thus was born the retail wholesale strategy, whereby you flip the property the same way as a traditional wholesale but your buyer is a person who is going to move into the property (a retail buyer), creating far larger profits than selling to an investor buyer.

Another advantage of having this investing technique in your tool belt is that some deals will not have enough equity to make money as a traditional wholesale but may still have enough as a retail wholesale. For example, let's say the home has a value of $ 400,000 but the borrower owes $350,000. Although there is some equity, there is not enough for an investor buyer to pay cash for the house and still leave room for a wholesaler to make any money. Remember the 65% rule? 65% of $400,000 is $260,000. In this instance, a retail wholesale may be the ideal strategy. The concept is that you are contracting to buy the property for one price and then selling the property to another buyer for a higher price. However, in many cases, as opposed to assigning the con-tract to the new buyer, with a retail wholesale you conduct two separate closings, or what is also called a concurrent closing or a back to back closing.

Both traditional wholesale and retail wholesale deals can be true no cash, no credit investing transactions. Most *no cash, no credit* investing strategies actually contain hidden places where real money is required. But with both of these techniques, you may be able to only put down $1 earnest money when the contract with the seller is executed and you may not incur any other expenses out of pocket after that. You can literally make a fortune with no cash or no credit buying and selling real estate through wholesaling.

A retail wholesale can earn you 10+ times as much as a traditional wholesale. Whereas you might get $3,000 assigning your contract to an investor buyer, you may be able to earn $30,000 or more by selling to a retail buyer. But with the increased in economic opportunity comes a far more detailed and potentially complicated transaction. The main reason is that retail buyers typically use standard mortgage loans to purchase property and the underwriting guidelines of some of these loans can be quite stringent. In an attempt to curb illegal flipping, some underwriting guidelines have not only stopped illegal flipping in its tracks but it has also prevented legitimate flipping from taking place as well. As you'll discover later, having the right mortgage person on your team will be vital to you successfully completing a retail wholesale.

Real World Example: A homeowner that had just relocated approached one of my students with a re-quest to purchase his home for $90,000. The home needed a little work, it was vacant and the seller just wanted out. He owed about $50,000 so he was more than pleased to get nearly $40,000 in his pocket. Meanwhile, our student recognized that the home could sell for as much as $130,000 if he just did a few quick cosmetic improvements, such as patch a small roof leak, clean the carpet and thoroughly clean every-thing else. After getting the deal under contract for $90,000, our student invested less than $500 to quickly make those improvements and immediately put the property on the MLS. He had a buyer quickly and ended up selling it for $120,000. At the closing, our student used transactional funding to purchase the property from the seller for $90,000 and then the next day, re-sold the property to the new buyer for $120,000. After closing costs and commissions, our student earned more than $20,000. except for the $500 to make a few improvements, our student used no cash or credit and made a very sizable profit.

6. Maximizing Profits with partners

A peculiar step some investors take when they first get started is adding on a partner to their fledgling endeavor. Perhaps new investors fear investing alone and want company? Maybe they assume the person they partner with brings tremendous value and is essential to the operation? Partners are very helpful in business, so long as you partner with the right people and you set up the partnership correctly.

First, you want to partner with someone for a definite period of time. Oftentimes, when two friends partner up in business, they do not set a specified time for their partner-ship and over time, when the inevitable happens and they each want the business to go in different directions, sadly they end up at odds with each other and the business falters. The way to eliminate that from the get-go is to have a specified ending point to the partnership.

Second, you should partner with someone who is pro-viding tremendous value. The conflict that can most likely plague a partnership is when one partner is doing all the work and/or providing all the value and the other one is not pulling his/her weight. The way to eliminate this problem before it starts is to make sure that each partner is bringing value above and beyond simply working in the business. Further, defining the roles of each partner and what each person is responsible for is also very helpful.

With partnerships, you must begin with the end in mind. It may feel uncomfortable to start a relationship already thinking about what happens when it ends, but with business partnerships, that is exactly how you need to enter one.

What if you are already in a partnership right now as you are reading this? Make sure your partner is providing tremendous value. Put together a timeframe when the partnership could end and have a plan for who is responsible for what. If your partner will not participate in this exercise, you may have the wrong partner on your hands.

Explore the Benefits of Partnering

Why do you want a partner? My Mentor had many partners. My Mentor said time and time again that business and investing are team sports.

But how do you know when you need one? The best way is to ask the question, “Can I complete the deal alone, or does it require more resources than I have available?” Those resources might be cash, connections, time, or specific expertise. Don’t create a partnership simply because a prospective partner is a friend or relative. If you’re going to share profits, each partner should contribute something important to the partnership.

Some partnerships are destined for success and others are doomed to fail. What makes the difference? Here are some qualities all good partnerships have in common:

- Healthy debate: You should have room for debate before decisions are made.
- Open-mindedness: You shouldn’t have to spend valuable time continually convincing your partner of your goals and points of view.
- Commitment: You should be committed to each other and your goals.
- Similar values: You and your partner should share the same values.

- Accountability: You and your partner should push each other to achieve objectives and have mutual accountability.

Never underestimate the resources you can offer a partner. Even if you don't have financial resources, you can contribute time and—as a result of your research—expertise to any deal. Your time and expertise can be as critical as money in achieving investment success.

FEAR: Asking people for money sounds like begging. No one will want to lend me capital. **FACT:** Investors are always looking for new opportunities, and they are very open to suggestions that involve a detailed plan that specifically shows how they can receive a good ROI. **FREEDOM:** Learn how to set up and present a deal on paper that will benefit each potential partner according to what each person brings to the table. Use facts, detailed research, and good business sense to demonstrate how a partner could benefit.

The type of transaction you're considering—as well as the preference and personality of those involved—will dictate the kind of arrangement you make.
A partner can help you with:

- Debt financing—partner acts as a lender with a fixed investment return in the form of an interest charge.
- Equity financing—partner acts in one of various ownership roles. Investment returns are based on the operational performance of the property and its management.

Be aware that when using equity financing, the form of ownership in which you take title to the property may determine the manner in which you receive compensation. As you begin investing, you will probably want to receive compensation as a direct participant. However, as your expertise grows, you may consider other forms of compensation such as a "subordinated interest." A subordinated interest is usually taken by the partnership sponsor (you) when none or very little of the sponsor's own money is invested. In general, at the time of sale of the property, it provides for the investors to receive a return of their original investment plus a guaranteed return before the sponsor participates in the profits.

Some investments will require one of many forms of joint ownership. Some broad forms of joint ownership are: general partnership, limited partnership, or a land trust.

Find and Recruit Potential Partners

Debt Financing/Private Lending

Debt financing is commonly referred to and advertised as "private lending." Private lenders can often be professional lenders. However, unlike traditional lenders, they are not subject to secondary money market guidelines and restrictions. These lenders are usually more interested in qualifying the property and ensuring the safety of their investment than they are in qualifying the buyer. Finding a partner from this group is much like shopping for a traditional lender. These individuals generally run ads in the newspaper under a heading like "Money to Loan" or "Private Money." Some traditional financial institutions will also develop a pool of private money lenders. When traditional financing doesn't work, a bank can write a loan using a private lender for a portion of the loan fees.

Always determine a private lender's parameters before you begin negotiating a transaction. Ask all candidates the following questions:

- What property categories will you consider—single family, small multifamily, apartments, etc.?
- What is the maximum LTV (Loan to Value) you will consider?
- What is the maximum loan amount you will consider for each property category—single family, small multifamily, apartments, etc.?
- In which property category do you want to invest?
- What is the minimum loan amount you will consider?
- What is the interest rate range you offer in each property category?
- What criteria determine your interest rate?
- How many points must be paid from the loan proceeds at closing (one point equals one percent of the loan amount)?

Private individuals with cash resources can also be private lenders. An effective way to recruit investors as debt financing/private lending partners is to make a list of interested parties and meet with them individually to make a presentation. Many people in your circle of acquaintance may have the resources to act as a private lender. These individuals are likely not currently involved in debt financing because they are unaware of the opportunity. An effective presentation can be the key to educating them.

FEAR: No one would want to loan me money. I wouldn't qualify. **FACT:** Investors look at opportunities more than they look at the person. In the case of real estate, the property often serves as collateral or security and is much less risky than many other types of business investments. **FREEDOM:** Without an actual deal, most investors will dismiss the idea of "partnering." By creating a plan that shows a potential investor how he or she can benefit (i.e., ROI), you have a real opportunity for them to evaluate.

As you give presentations remember to:

- Be professional—in conduct, research, preparation, and image.
- Listen to concerns.
- Demonstrate your expertise.
- Ask for an available funds commitment.
- Present a clear plan of how you will care for the investor's money.

About the Author

Wissem Sghaier is an accomplished investor, real estate consultant and best selling author. He has been rewarded the coach of the year in the state of Virginia. He is a mentor in real estate. He is a student of the legendary wealth expert Robert Kiyosaki. He has been a part of more than 500 real estate investment deals. Wissem is considered one of the most experienced investors in the USA. And for over sixteen years, Wissem have been educating individuals the ways to financial freedom through his creative real estate investing techniques and strategies.